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UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA

PATRICIA DES GROSEILLIERS,
DERIVATIVELY AND ON BEHALF OF
MEDBOX, INC.,

Plaintiff,

vs.

PEJMAN VINCENT MEHDIZADEH, NED L.
SIEGEL, GUY MARSALA, J. MITCHELL
LOWE, BRUCE BEDRICK, JENNIFER S.
LOVE, MATTHEW FEINSTEIN, C.
DOUGLAS MITCHELL, AND THOMAS
IWANSKI,

Defendants,

CASE No.:

VERIFIED SHAREHOLDER
DERIVATIVE COMPLAINT FOR:

(1) BREACH OF FIDUCIARY
DUTY;
(2) UNJUST ENRICHMENT

JURY TRIAL DEMANDED

1 And
2 MEDBOX, INC.,
3 Nominal Defendant.
4

5
6 Plaintiff Patricia des Groseilliers ("Plaintiff"), by her undersigned attorneys,
7 derivatively and on behalf of Nominal Defendant Medbox, Inc. ("Medbox," or the
8 "Company"), files this Verified Shareholder Derivative Complaint against Individual
9 Defendants Pejman Vincent Mehdizadeh, Ned L. Siegel, Guy Marsala, J. Mitchell Lowe,
10 Bruce Bedrick, Jennifer S. Love, Matthew Feinstein, C. Douglas Mitchell, and Thomas
11 Iwanski (collectively, the "Individual Defendants") for breaches of their fiduciary duties as
12 directors and/or officers of Medbox and unjust enrichment, and alleges the following based
13 upon personal knowledge as to herself and her own acts, and information and belief as to
14 all other matters, based upon, *inter alia*, the investigation conducted by and through her
15 attorneys, which included, among other things, a review of Medbox's and the Individual
16 Defendants' public documents, conference calls and announcements made by Medbox and
17 the Individual Defendants, United States Securities and Exchange Commission ("SEC")
18 filings, wire and press releases published by Medbox and the Individual Defendants
19 regarding Medbox, news reports, securities analysts' reports and advisories about the
20 Company, press releases, and information readily obtainable on the Internet. Plaintiff
21 believes that substantial evidentiary support will exist for the allegations set forth herein
22 after a reasonable opportunity for discovery.
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NATURE OF THE ACTION

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2 1. This is a shareholder derivative action which seeks to remedy wrongdoing
3 committed by Medbox's directors and officers.
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5 2. Medbox, through its subsidiary Medicine Dispensing Systems, sells its
6 patented vending machines that dispense medical marijuana, software and consulting
7 services to pharmacies, alternative medicine dispensaries, and local governments in the
8 United States.
9

10 3. Medbox was founded in 2010 by Defendant Pejman Vincent Mehdizadeh
11 ("Mehdizadeh"), a mid-30s aged immigrant with a checkered history of business failures
12 and criminal conduct, including grand theft in 2013. At all relevant times, Defendant
13 Mehdizadeh has been Medbox's controlling shareholder, owning approximately 65% of its
14 common stock, and earlier on served as the Company's Chief Operating Officer and
15 Chairman of its Board of Directors, and later, after resigning from those positions, acted as
16 the Company's consultant, receiving greater compensation than the Company's Chief
17 Executive Officer.
18

19 4. Defendant Mehdizadeh, in complete disregard of his fiduciary responsibilities
20 as a majority shareholder, officer, and director of a publicly traded company, abused
21 Medbox and failed to manage Medbox pursuant to the requirements of a publicly traded
22 Company. In his own words, Mehdizadeh "was involved in almost every decision the
23 company made."
24

25 5. The misconduct engaged in by Defendant Mehdizadeh includes acts that
26 bespeak of moral turpitude and a desire to deceive investors, such as: (1) hiring an
27
28

1 "independent" auditor that has been censured by the Public Accounting Oversight Board
2 and is currently the subject, along with the Company, of a U.S. Department of Justice
3 ("DOJ") grand jury; (2) attempting to conceal from investors that he is a convicted felon
4 due to a con in which he and his father pretended to be attorneys and stole over \$450,000
5 from people in need; (3) publicly denying the facts that the Company was under
6 investigation by the SEC and was the subject of a federal grand jury investigation; (4)
7 issuing false and misleading press releases without authorization under the Medbox name
8 and logo at a time when he was neither an officer nor a director of the Company; and (5)
9 causing the Company to issue false and misleading statements of material fact regarding its
10 financial results.

11
12
13 6. At all relevant times, Defendants caused the Company to issue materially
14 false and misleading statements regarding the Company's financial results for the fiscal year
15 ended December 31, 2013 ("FY 2013") and each of the interim financial periods ended
16 September 30, 2013 ("3Q 2013"), December 31, 2013 ("4Q 2013"), March 30, 2014 ("1Q
17 2014"), June 30, 2014 ("2Q 2014") and September 30, 2014 ("3Q 2014"). Specifically,
18 Defendants caused the Company to overstate the Company's revenues by recognizing
19 revenue on customer contracts before it had been earned.

20
21
22 7. On December 30, 2014, Defendants caused the Company to issue a press
23 release disclosing that it would restate the past five quarters of financial reports and
24 potentially its "financial statements for 2012 and for the first two quarters of 2013 ... as
25 well." The December 30 press release further disclosed that the earnings restatement had
26 triggered a default by the Company on its debt covenants, forcing the Company to seek a
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1 forbearance from lenders. The Company press release stated that the "steps [being taken
2 were] part of the continued initiative of [Medbox's] new board of directors and new
3 management team to implement better controls and emphasize transparency."

4
5 8. The Company's financial misstatements were so pervasive that they include:
6 (a) the issuance of press releases in 2013 claiming the Company had "booked" \$2 million
7 in revenue in the first quarter of 2013 when it had not; and (b) the issuance of at least two
8 sets of distinct financial statements reporting different results for the third quarter of
9 2013; (c) overstatement of over \$1.3 million in revenues for fiscal year 2012; (d)
10 overstatement of over \$3 million in revenues for fiscal year 2013.
11

12 9. Defendant Mehdizadeh has used his position as a majority shareholder to
13 appoint and terminate directors at will and has completely dominated Medbox's Board and
14 the corporation for his own benefit.
15

16 10. Astonishingly, since 2013, Medbox's Board has been composed of 4 different
17 sets of Directors.
18

19 11. Additional evidence of Defendants' egregious fraud was disclosed by the
20 Company on October 31, 2014. The Company disclosed the following: (a) a federal grand
21 jury was investigating matters pertaining to Medbox and had issued a subpoena to the
22 Company's public accountant; and (b) a whistleblower had contacted the SEC alleging that
23 Defendant Mehdizadeh had engaged in insider trading and securities fraud.
24

25 12. The majority of the Company's current board of directors knew about the
26 grand jury investigation since August 2014, but concealed its existence from shareholders
27 for three months.
28

1 13. Additionally, Defendant Mehdizadeh issued a series of press releases
2 beginning on November 3, 2014 that denied that Medbox was being investigated by the
3 SEC, forcing the Company to disclose to the public that Defendant Mehdizadeh's press
4 releases were not accurate or authorized by Medbox.
5

6 14. The Company's corporate governance was conspicuous by its absence. Until
7 August 2014, Medbox failed to have an audit committee. The Company adopted an Audit
8 Committee Charter in August 2014, which required it to be comprised of three independent
9 directors. According to Medbox's SEC filings, only beginning in October 2014 did its
10 Board have three independent directors. Yet, the Company's audit committee still only has
11 two independent directors.
12

13 15. Defendants breached their fiduciary duties by causing the Company to issue
14 false and misleading statements of material fact regarding the Company's revenue, by
15 failing to disclose the grand jury investigation pertaining to Medbox matters and the SEC
16 investigation of Medbox, by causing certain Defendants to receive excessive compensation,
17 by failing to recover funds from Defendant Mehdizadeh that he was improperly paid or that
18 he wastefully caused the Company to spend, by retaining an auditor that did shoddy audits
19 and that was reprimanded by the Public Company Accounting Oversight Board
20 ("PCAOB"), by failing to establish an audit committee, and, after the audit committee was
21 recently established, by failing to appoint three independent directors to the audit
22 committee.
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26 16. In light of Defendants' conduct, which caused the Company stock price to fall
27 from over \$40 per share before the fraud was exposed to close at \$1.02 per share on April
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1 16, 2015, and which has subjected the Company and four of the Individual Defendants to
2 being named as defendants in three federal securities fraud class action lawsuits, a majority
3 of the Board cannot consider a demand to commence litigation against themselves on behalf
4 of the Company with the requisite level of disinterestedness and independence.
5

6 17. The Company has been substantially damaged as a result of the Individual
7 Defendants' knowing breaches of fiduciary duty and other misconduct.
8

9 **JURISDICTION AND VENUE**

10 18. Diversity jurisdiction is conferred by 28 U.S.C. § 1332. Plaintiff and
11 Individual Defendants are citizens of different states and the amount in controversy exceeds
12 the sum or value of \$75,000, exclusive of interest and costs.
13

14 19. The Court has personal jurisdiction over each of the Defendants because each
15 Defendant is either a corporation conducting business and maintaining operations in this
16 District, or is an individual who is a citizen of Nevada or who has minimum contacts with
17 this District to justify the exercise of jurisdiction over them.
18

19 20. Venue is proper in this District pursuant to 28 U.S.C. §§ 1391 and 1401
20 because a substantial portion of the transactions and wrongs complained of herein occurred
21 in this District, one or more of the Defendants either resides or maintains executive offices
22 in this District, and the Defendants have received substantial compensation in this district
23 by engaging in numerous activities that had an effect in this District.
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PARTIES

21. Plaintiff is a current shareholder of Medbox. Plaintiff is and has been a shareholder of Medbox common stock continuously at all relevant times. Plaintiff is a citizen of Pennsylvania.

22. Nominal Defendant Medbox is a Nevada corporation headquartered in West Hollywood, California. It describes itself as a "leading dispensary infrastructure and licensing specialist, patented technology provider, and partner" to the cannabis industry. At all relevant times, Medbox's common stock was actively traded on OTCQB, under the ticker "MDBX."

23. Defendant Bruce Bedrick ("Bedrick") was the Company's Chief Executive Officer and President until his resignation on July 23, 2014. Defendant Bedrick served as a Company Director from December 2011 until he resigned from that position on August 18, 2014. Defendant Bedrick has continued to serve the Company as a consultant since then. Medbox's SEC filings referred to Defendant Bedrick as a "physician" and stated he possessed medical expertise relevant to Medbox's business, whereas Defendant Bedrick is actually a chiropractor, and not a medical doctor. Upon information and belief, Defendant Bedrick is a citizen of Arizona.

24. Defendant Guy Marsala ("Marsala") has been the Company's Chief Executive Officer and President, as well as a Company Director, since July 23, 2014. Upon information and belief, Defendant Marsala is a citizen of California.

25. Defendant Thomas Iwanski ("Iwanski") was the Company's Chief Financial Officer from February 2014 until his resignation on October 16, 2014. Since then,

1 Defendant Iwanski has served as a consultant to Medbox. From April 2013 until February
2 2014, Defendant Iwanski served Medbox as an accounting consultant. Upon information
3 and belief, Defendant Iwanski is a citizen of California.
4

5 26. Defendant Matthew Feinstein ("Feinstein") served as a consultant for Medbox
6 beginning in June 2013. He was appointed as the Company's Vice President in February
7 2014. He served as a Company director from April 2014 until October 2014. Defendant
8 Feinstein was to be appointed a director again, effective January 29, 2015, by Defendant
9 Mehdizadeh and entities he controlled by way of a January 9, 2015 written consent that was
10 illegal and subsequently withdrawn. Upon information and belief, Defendant Feinstein is
11 a citizen of California.
12

13 27. Defendant Vincent Mehdizadeh ("Mehdizadeh") was the Company's Chief
14 Operating Officer a Company Director from May 2013 until his resignation on April 10,
15 2014. On April 10, 2014, Defendant Mehdizadeh was appointed as Medbox's "Senior
16 Strategist and Founder." On October 13, 2014 Defendant Mehdizadeh resigned as Senior
17 Strategist, but continued being paid by Medbox as a consultant. Defendant Mehdizadeh
18 founded a predecessor company to Medbox in 2008 and acquired partial control of Medbox
19 in 2011 and complete control of Medbox in 2012 when he purchased all of the outstanding
20 shares. Recently, Defendant Mehdizadeh has owned approximately 65% of Company
21 common stock. Upon information and belief, Defendant Mehdizadeh is a citizen of
22 California.
23
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26 28. Defendant Ned L. Siegel ("Siegel") has been a Director of the Company since
27 April 9, 2014. On December 17, 2014, Defendant Siegel was appointed Chairman of the
28

1 Board of the Company. Defendant Siegel is a member of the Audit Committee, the
2 Compensation Committee, and the Governance and Nominating Committee. Upon
3 information and belief, Defendant Siegel is a citizen of Florida.
4

5 29. Defendant C. Douglas Mitchell ("Mitchell") has served as Medbox's Chief
6 Financial Officer since October 21, 2014. Upon information and belief, Defendant Mitchell
7 is a citizen of California.
8

9 30. Defendant J. Mitchell Lowe ("Lowe") has been a Director of Medbox since
10 March 2014. Defendant Lowe is a member of the Governance and Nominating Committee
11 and the Chairperson of the Compensation Committee. Upon information and belief,
12 Defendant Lowe is a citizen of California.
13

14 31. Defendant Jennifer S. Love ("Love") has been a Director of Medbox since
15 October 22, 2014. Defendant Love is the Chairperson of the Audit Committee. Upon
16 information and belief, Defendant Love is a citizen of Missouri.
17

18 32. Defendants Mehdizadeh, Bedrick, Iwanski, Mitchell, Feinstein, Siegel,
19 Marsala, Lowe, and Love are referred to herein as the "Individual Defendants."
20

DUTIES OF THE INDIVIDUAL DEFENDANTS

21 33. By reason of their positions as officers, directors and/or fiduciaries of
22 Medbox, and because of their ability to control the business and corporate affairs of
23 Medbox, the Individual Defendants owed Medbox and its shareholders fiduciary
24 obligations of trust, loyalty, good faith, and due care, and were and are required to use their
25 utmost ability to control and manage Medbox in a fair, just, honest, and equitable manner.
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1 The Individual Defendants were and are required to act in furtherance of the best interests
2 of Medbox and its shareholders so as to benefit all shareholders equally.

3 34. Each director and officer of the Company owes to Medbox and its
4 shareholders the fiduciary duty to exercise good faith and diligence in the administration of
5 the Company and in the use and preservation of its property and assets and the highest
6 obligations of fair dealing.
7

8 35. The Individual Defendants, because of their positions of control and authority
9 as directors and/or officers of Medbox, were able to and did, directly and/or indirectly,
10 exercise control over the wrongful acts complained of herein.
11

12 36. To discharge their duties, the officers and directors of Medbox were required
13 to exercise reasonable and prudent supervision over the management, policies, controls, and
14 operations of the Company.
15

16 37. Each Individual Defendant, by virtue of his position as a director and/or
17 officer, owed to the Company and to its shareholders the highest fiduciary duties of loyalty,
18 good faith, and the exercise of due care and diligence in the management and administration
19 of the affairs of the Company, as well as in the use and preservation of its property and
20 assets. The conduct of the Individual Defendants complained of herein involves a knowing
21 and culpable violation of their obligations as directors and officers of Medbox, the absence
22 of good faith on their part, or a reckless disregard for their duties to the Company and its
23 shareholders that the Individual Defendants were aware, or should have been aware, posed
24 a risk of serious injury to the Company. The conduct of the Individual Defendants has been
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1 ratified by the Individual Defendants who collectively comprised the Medbox's Board of
2 Directors at all relevant times.

3 38. As senior executive officers and directors of a publicly-traded company
4 whose common stock was registered with the SEC pursuant to the Securities Exchange Act
5 of 1934 and traded on OTCQB, the Individual Defendants had a duty not to effect the
6 dissemination of inaccurate and untruthful information with respect to the Company's
7 financial condition and performance, growth, operations, financial statements, business,
8 products, management, earnings, and present and future business prospects, so that the
9 market price of the Company's common stock would be based upon truthful and accurate
10 information. Accordingly, the Individual Defendants breached their fiduciary duties by
11 causing or recklessly permitting violations of the federal securities laws.
12
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14

15 39. To discharge their duties, the officers and directors of Medbox were required
16 to exercise reasonable and prudent supervision over the management, policies, practices,
17 and internal controls of the Company. By virtue of such duties, the officers and directors
18 of Medbox were required to, among other things:
19

20 (a) refrain from acting upon material inside corporate information to
21 benefit themselves;

22 (b) ensure that the Company complied with its legal obligations and
23 requirements, including acting only within the scope of its legal authority and disseminating
24 truthful and accurate statements to the investing public;
25
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1 (c) conduct the affairs of the Company in an efficient, business-like
2 manner so as to make it possible to provide the highest quality performance of its business,
3 to avoid wasting the Company's assets, and to maximize the value of the Company's stock;

4
5 (d) properly and accurately guide investors and analysts as to the true
6 financial condition of the Company at any given time, including making accurate statements
7 about the Company's financial results;

8 (e) remain informed as to how Medbox conducted its operations, and,
9 upon receipt of notice or information of imprudent or unsound conditions or practices, make
10 reasonable inquiry in connection therewith, and take steps to correct such conditions or
11 practices and make such disclosures as necessary to comply with securities laws; and

12 (f) ensure that Medbox was operated in a diligent, honest, and prudent
13 manner in compliance with all applicable laws, rules, and regulations.

14
15
16 40. Each of the Individual Defendants further owed to Medbox and the
17 shareholders the duty of loyalty requiring that each favor Medbox's interest and that of its
18 shareholders over their own or over the interest of anyone else while conducting the affairs
19 of the Company and refrain from using their position, influence or knowledge of the affairs
20 of the Company to gain personal advantage.

21
22 41. At all times relevant hereto, the Individual Defendants were the agents of each
23 other and were at all times acting within the course and scope of such agency.

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CONSPIRACY, AIDING AND ABETTING, AND CONCERTED ACTION

42. The Individual Defendants engaged in a conspiracy, common enterprise, and/or common course of conduct at all relevant times. At all relevant times, the Individual Defendants caused the Company to conceal the true facts as alleged herein.

43. The purpose and effect of the conspiracy, common enterprise, and/or common course of conduct was, among other things, to: (i) facilitate and disguise the Individual Defendants' violations of law, including breaches of fiduciary duty and unjust enrichment; (ii) to conceal adverse information concerning the Company's operations, financial condition, future business prospects, and internal controls; and (iii) to artificially inflate the Company's stock price.

44. The Individual Defendants accomplished their conspiracy, common enterprise, and/or common course of conduct by causing the Company to purposefully, recklessly, or negligently to conceal material facts, misrepresent its financial results, and violate applicable laws. Because the actions described herein occurred under the authority of the Board, each of the Individual Defendants who are directors of Medbox was a direct, necessary, and substantial participant in the conspiracy, common enterprise, and/or common course of conduct complained of herein.

45. Each of the Individual Defendants aided and abetted and rendered substantial assistance in the wrongs complained of herein. In taking such actions to substantially assist the commission of the wrongdoing complained of herein, each of the Individual Defendants acted with knowledge of the primary wrongdoing, substantially assisted the

1 accomplishment of that wrongdoing, and was aware of his overall contribution to, and
 2 furtherance of, the wrongdoing.

3 **DEFENDANTS' MISCONDUCT**

4
 5 46. On April 2, 2013, the Company issued a press release entitled "Medbox
 6 Completes Financial Audit... Company is cleared to file Form 10 to become fully reporting
 7 with the SEC." The press release falsely stated that Medbox earned over \$2 million in
 8 revenues for the quarter ended March 31, 2013. The press release stated in relevant part:

9
 10 Medbox, Inc. (OTC Markets: MDBX) (www.medboxinc.com), announced it has
 11 cleared a financial audit of its prior 2 years of operations. Q Accountancy
 12 Corporation of Irvine, California headed up the audit as a public company
 accountancy and oversight board (PCAOB) certified firm that specializes in complex
 audits of this size and scope.

13

14 Of the \$2,397,000 in receivables owed, \$345,000 was written off by Medbox as
 15 discounts that were voluntarily given to the clients in question for materials and labor
 16 expended by said clients, that the company would have had to expend anyway, in
 17 pursuit of finalizing the contracted building of the dispensing locations. Those items
 18 were deducted from revenue at the discretion of the Auditor as opposed to being
 19 booked as revenue and offset as expenses, leaving a total receivables balance of
 20 \$2,052,000. Of that amount, \$673,250 was labeled as deferred income and not
 21 counted as revenue for the period ending 12/31/12. Between the \$345,000 in
 22 voluntary discounts given to clients and the \$673,250 in deferred revenue, Medbox's
 2012 revenue was reduced to \$3,525,636. However, Medbox reports that all
 \$673,000 in deferred revenue was paid in Q1 2013 and as a result added to that
 quarter's revenue figures making Q1 2013 revenue well in excess of \$2 million - a
 company record. In addition, the clients whom Medbox gave discounts have
 reengaged the company for additional equipment and services exceeding \$350,000
 booked in Q1 2013 to be paid in Q2 2013.

23

24 "We are absolutely thrilled that we have cleared this proverbial hurdle in our
 25 company's history," stated Dr. Bruce Bedrick, CEO of Medbox, Inc. "We anticipate
 26 filing our Form 10 by Friday and 60 days thereafter the filing shall be deemed
 effective. We want to thank all of our supporters that helped us in becoming a viable
 public company."

1 47. On April 3, 2013, the Company issued a press release entitled "Medbox to
2 Engage 2nd Auditing Firm," which disclosed that the firm, Q Accountancy Corporation ("Q
3 Accountancy"), that audited their financials for the quarter ended March 31, 2013 was
4 inadequate. The press release stated:

6 Medbox, Inc. (OTC Markets: MDBX) (www.medboxinc.com) announced that it will
7 engage a new public company accounting and oversight board (PCAOB) auditing
8 firm to review the previously audited financials. The new firm's engagement is
9 underway for purposes of providing audited financials for the filing of the Form 10
and on an ongoing basis thereafter.

10 While Q Accountancy Corporation's audit delivered an acceptable set of financial
11 statements, management believes a firm more focused and supportive of emerging
12 microcap public companies would be best suited for long term operations.
13 Management believes it is in the best interest of the shareholders and the company,
as a whole, to make this change, although it will delay the filing of its Form 10 to
the latter part of April.

14 "The point is getting the job done with the right people. We have identified a firm
15 and we look forward to announcing their engagement shortly," stated Dr. Bruce
16 Bedrick, CEO of Medbox, Inc. "Corporate governance is paramount and the
17 company will do what is needed for the Form 10 to be viewed as favorably as
possible by the SEC."

18 48. The Individual Defendants should have known that Q Accountancy did
19 shoddy audits and was reprimanded by the PCAOB, and that Q Accountancy's Chief
20 Executive Officer and founder, Timothy Quintanilla ("Quintanilla"), was sued by the SEC
21 and has been, and still is, a defendant in a securities fraud class action lawsuit. Thus, the
22 Individual Defendants breached their fiduciary duty by causing Medbox to retain Q
23 Accountancy.
24

25 49. Indeed, on November 8, 2012 the SEC filed a complaint against, among
26 others, Quintanilla, in the United States District Court for the Southern District of New
27 York for violations of the federal securities laws.
28

1 50. On January 4, 2013 a class action complaint was filed against Quintanilla,
2 among others, also in the United States District Court for the Southern District of New York
3 for violations of the federal securities laws.
4

5 51. Back on September 27, 2012, the PCAOB issued a report on Q Accountancy
6 stating that there were audit deficiencies in Q Accountancy's work, that Q Accountancy
7 failed to perform certain necessary audit procedures, and that Q Accountancy's system of
8 quality controls is insufficient to assure that it will "conduct all testing appropriate to a
9 particular audit."
10

11 52. The PCAOB report stated in pertinent part:

12 The inspection team identified what it considered to be audit deficiencies. Those
13 deficiencies included a failure by the Firm to identify or appropriately address an
14 error in the issuer's application of GAAP that appeared likely to be material to the
15 issuer's financial statements. In addition, the deficiencies included failures by the
16 Firm to perform, or to perform sufficiently, certain necessary audit procedures.

17

18 The deficiencies identified in both audits reviewed included deficiencies of such
19 significance that it appeared to the inspection team that the Firm, at the time it
20 issued its audit report, had not obtained sufficient competent evidential; matter to
21 support its opinion on the issuer's financial statements.

22

23 On the basis of the information reported by the inspection team, including the audit
24 performance deficiencies [described previously in the report], the Board has
25 concerns that the Firm's system of quality controls fails to provide such reasonable
26 assurance in at least the following respects.... The Firm's system of quality control
27 appears not to provide sufficient assurance that the Firm will conduct all testing
28 appropriate to a particular audit.

53. The Individual Defendants breached their fiduciary duty by causing Medbox
not to replace Q Accountancy until February 2015 despite that the Company's April 3,
2013's press release stated that it would shortly thereafter do so.

1 54. On April 10, 2013, Medbox filed on Form 10 with the SEC its financial
2 statements for fiscal years ending December 31, 2012 and December 31, 2011. The Form
3 10 included the following false statements that hid Defendant Mehdizadeh's criminal
4 history:
5

6 Mr. Mehdizadeh was the Director of Client Relations for the following law offices
7 at various times from 2003 through 2008: Law Office of Donald J. Townley; Law
8 Offices of Frank E. Miller; Law Offices of Thomas R. Lee, Rexford Law Group; and
the Moheban Law Firm.

9 In 2007, Mr. Mehdizadeh was involved in the sale of his automobile to a private
10 party. The transaction terms were in dispute by the parties and Mr. Mehdizadeh pled
11 no-contest to using an access card (credit card) without the owner's consent. The
12 matter was resolved with Mr. Mehdizadeh receiving probation. Mehdizadeh is still
currently on probation for that offense.

13 55. The truth about Defendant Mehdizadeh's criminal history was disclosed in a
14 press release issued by the Los Angeles County District Attorney's Office on June 21, 2013,
15 which was entitled "Father, Son Plead to Criminal Charges in \$450,000 Unauthorized
16 Practice of Law Case." The press release stated in pertinent part:
17

18 A father and son accused of stealing \$450,000 from more than a dozen victims by
19 offering unlicensed legal services pleaded no contest today, the Los Angeles County
District Attorney's Office announced.

20 Pejman Mehdizadeh, 35, of Los Angeles, told victims he was a licensed attorney or
21 that he worked with one and that he could provide a variety of services – including
22 obtaining green cards, loan modifications and divorces. His father, Parvis
23 Mehdizadeh, 78, of Calabasas, assisted. Between 2002 and 2009, they took payments
from 15 victims ranging from \$2,000 to \$200,000.

24

25 The younger Mehdizadeh pleaded no contest to two counts of felony grand theft and
26 admitted a special allegation of engaging in a pattern of related felony conduct
27 involving takings in excess of \$100,000. Los Angeles County Superior Court Judge
28 Robert J. Perry immediately sentenced him to four years in state prison, suspended,
and five years of formal probation.

1 Under the terms of a negotiated plea agreement, the son was ordered to pay back
2 \$450,000 in restitution on or by Oct. 21 or face prison time. To date, he has paid
3 \$370,000 in restitution.

4 The elder Mehdizadeh pleaded no contest to a misdemeanor violation of failure to
5 obtain a bond required of those providing immigration assistance and was sentenced
6 to three days in the county jail and two years of summary probation.

7 The case was investigated by the Los Angeles County District Attorney's Bureau of
8 Investigation and the Los Angeles County Department of Consumer Affairs.

9 56. On February 14, 2014, the SEC sent a letter to Medbox stating that, among
10 other things, the Company failed to properly disclose Defendant Mehdizadeh's criminal
11 history. The SEC letter stated in pertinent part: "We also refer you to the Los Angeles
12 County District Attorney's Office June 21, 2013 press release. Please ensure that your
13 disclosure here encompasses all aspects of Mr. Mehdizadeh's plea, including the payment
14 of fees in restitution."

15 57. On April 11, 2014, the SEC sent a letter to Medbox stating once again that,
16 among other things, the Company failed to properly disclose Defendant Mehdizadeh's
17 criminal history. The SEC letter stated in pertinent part:

18 Please revise your disclosure to significantly reduce or remove disclosure relating to
19 Mr. Lee since he was not a party to the case. Further revise your disclosure to state
20 that Mr. Mehdizadeh pleaded "no contest to two counts of felony grand theft and
21 admitted a special allegation of engaging in a pattern of related felony conduct
22 involving takings in excess of \$100,000" and that he was ordered to pay back
23 \$450,000 in restitution. We refer you to the Los Angeles County District Attorney's
24 Office June 21, 2013 press release. Please tell us whether Mr. Mehdizadeh has
25 already paid the \$450,000 and if not, please revise the disclosure accordingly. Also,
26 please remove the last sentence beginning with "Mr. Mehdizadeh maintains his
27 innocence . . ."

28 58. On April 15, 2013, the Company issued a press release entitled "Medbox
Positions Itself as the Leader on Wall Street in the Legalized Marijuana Industry." The

1 press release once again made the false statement that in the quarter ended March 31, 2013
2 Medbox earned more than \$2 million in revenues.

3 59. On May 21, 2013, Medbox filed its quarterly report for the period ended
4 March 31, 2013 with OTCmarkets.com (the "OTC 2013 1Q Quarterly Report"). The OTC
5 2013 1Q Quarterly Report stated that the Company earned revenues in the amount of
6 \$1,750,000 during the first quarter of 2013. Thus, the OTC 2013 1Q Quarterly Report
7 revealed the falsity of the statements made in the Company press releases issued on April
8 2, 2013 and April 15, 2013 that the Company earned more than \$2 million in revenues
9 during the first quarter of 2013.

10 60. On June 4, 2013, Medbox filed a letter with the SEC requesting withdrawal
11 of the Form 10 it filed with the SEC on April 10, 2013 because the Company would "not
12 have time to complete certain financial statement updates and address the [SEC] Staff's
13 comments on the Registration Statement as set forth in its letter to the Company dated May
14 7, 2013."

15 61. On September 30, 2013, the Southern Investigative Reporting Foundation
16 ("SIRF") published an article about Defendant Mehdizadeh's past crimes, unethical
17 conduct, and dishonesty and about Medbox's deceptive history, entitled "Tinkerer, Lawyer,
18 Hustler, Lies: One Man's Path to a Dope Fortune." The article states in pertinent part:

19 In the spring of 2010, exasperated police detectives from all over Los Angeles began
20 phoning the county's consumer affairs department to complain that an outfit calling
21 itself the Active Lawyers Referral Service had misled its working-class customers
22 from 2005 to 2008 by referring them to a law firm that billed them for work—but
23 never finished the job. Their tales got positively woolly: Several claimed that Pejman
24 Vincent Mehdizadeh, the founder of the referral service and the manager of the law
25 firm, had posed as a lawyer and his father, Parviz, had given them legal advice as
26
27
28

1 they sought work visas. (Pejman and Parviz use the names Vincent and Paul,
2 respectively, for business.)

3 Three years later the consumer affairs unit, along with the Los Angeles County
4 district attorney's office, sought to prosecute Vincent Mehdizadeh, who, after months
5 of wrangling, pleaded no contest to various criminal charges. He consented to pay
6 \$450,000 in restitution to his victims, thereby avoiding a four-year sentence in a
California state penitentiary. (His father, Parviz, pleaded no contest to one
misdemeanor charge.)

7
8 Worth more than \$200 million, Mehdizadeh is the first multimillionaire (legally)
9 connected to the pot trade, no mean feat in an industry where prior to the start of
legalization those at its pinnacle were often rewarded with long jail terms or the
occasional bullet to the head.

10
11 Running his own [marijuana] dispensary business had proved to be a profound
12 headache for Mehdizadeh: In 2007 the Drug Enforcement Agency raided Herbal
13 Nutrition Center, his dispensary; and a lawsuit resulted from another dispensary
14 transaction in which he was accused of posing as a lawyer and a real estate agent at
different times. (Mehdizadeh told the Southern Investigative Reporting Foundation
that he paid \$350,000 to the plaintiffs to settle the matter and "make it go away.")

15
16 A search of Los Angeles area criminal records databases shows that from 1997 to
17 2007, Mehdizadeh was arrested or pleaded no contest for breaking and entering,
18 solicitation, trespassing and credit card fraud. He declared bankruptcy in July 2010,
after landing up to his neck in back taxes owed to the Internal Revenue Service.
Earlier this year, he wound up in the middle of the aforementioned consumer affairs
investigation.

19
20 Consider Mehdizadeh's tax problems. In his 2010 bankruptcy filing, he listed just
21 under \$2 million in back taxes owed the IRS for the 2003 to 2007 tax years. He
22 attributed this situation mainly to a careless accountant who didn't properly handle a
series of allowable deductions. His lawyer negotiated the owed amount down to
\$1.2 million, Mehdizadeh said, claiming that his role in the mess was simply not
having filed his federal income tax return in 2004 and 2005.

23
24 Mehdizadeh similarly claimed a 2006 arrest for solicitation of a prostitute and
25 criminal trespassing with intent to injure was nothing more than a coverup of police
26 brutality writ large. His account of the matter has him merely driving around in his
27 new Porsche and being randomly stopped by the Los Angeles police. After asking
the officer the reason for the stop, "I was taken out of my car and beaten," he said.
Moreover, his car was impounded and he was arrested.

1 Despite his allegations of police brutality, Mehdizadeh did not press charges, sue or
2 even file a complaint. Rather, he pleaded no contest to both charges, was given two
3 years probation and paid thousands of dollars to retrieve his impounded car. (A
4 spokeswoman for the Los Angeles Police Department said she could not discuss
5 details about the arrest with the Southern Investigative Reporting Foundation, citing
6 California privacy statutes.)

7
8 One area where there is little room for debate is Mehdizadeh's penchant for posing
9 as a lawyer. After the raid on his marijuana dispensary he wrote in a signed
10 December 2007 post on Weedtracker.com, a dormant pro-marijuana legalization
11 website, "I have a law degree and made managing partner in my firm before the age
12 of 26."

13 Moreover, in a testimonial for a Web marketing company, Mehdizadeh signed his
14 name "Vincent Mehdizadeh, J.D." Short for juris doctor, J.D. signals an accredited
15 law school awarded a degree.

16 After Mehdizadeh initially strongly denied that he had posed as a lawyer, the
17 Southern Investigative Reporting Foundation presented these two online claims to
18 him and he acknowledged the fabrication: "I felt really insecure for many years not
19 having gone to college, and it just came easily, occasionally telling people I was a
20 lawyer," he said. "That was a dark place and time for me. I don't do anything like
21 that anymore."

22 Mehdizadeh's many legal problems have never been disclosed to Medbox
23 investors—except for a 2007 incident when he failed to produce a clear title to a car
24 he was selling yet accepted a credit card payment for the vehicle anyway. The
25 consumer affairs investigation, which had been headed for trial with the possibility
26 of prison time for Mehdizadeh before he pleaded no contest, was blithely waved
27 away in a Medbox filing as "a private matter."

28
For its audits and filing preparation, Medbox turned to Irvine, Calif.-based Q
Accountancy. But Q Accountancy had a problematic history of its own with
regulators and a legacy of troubled clients. In 2012, a congressionally appointed
industry watchdog group—the Public Company Accounting Oversight Board—
uncovered a sweeping array of deficiencies in Q Accountancy's auditing practices.
And last November the SEC sued Q's founder, Timothy Quintanilla, for issuing
misleading audits based on "reckless and deficient work."

....
How does a company that's trying to smarten its profile before selling more stock get
into these jams? One way is to have no one in charge of financial oversight on a full-
time basis. Until Sept. 1, the company's finance chief, Leila Guieb, was moonlighting
part-time at Medbox while she worked as an employee at Toyota Financial Services.
(Thomas Iwanski, a full-time finance executive, has since assumed her duties.)

1
2 Another interesting hire in Medbox's crucial first years of existence was that of
3 William Smith III, a man the company's fawning December press release framed as
4 the Warren Buffett of the pet insurance industry. He was charged with launching a
5 mergers and acquisitions department in a company with six full-time employees.
6 Smith's numerous academic degrees on the press statement suggested that he had
7 more accounting experience than the legendary Abraham Briloff.

8 But what was not disclosed is telling: He was chairman of a pet insurance venture
9 called Ensurapet Inc. when the SEC tossed it from the markets because it failed to
10 file annual and quarterly reports. Moreover, what business the company did do
11 appears to have been centered around the ancient practice of selling unregistered
12 securities in the form of promissory notes to retail investors, as a 2009 claim from
13 the Arkansas Securities Commission argued.

14 That's not the only blot on Smith. During his tenure at the company, the general
15 counsel was Joseph Emas, someone the SEC had barred for two years from advising
16 publicly traded clients in 2010 for drafting misleading filings for another client.

17 Smith was terminated from Medbox within months of his hire, according to a
18 disclosure in the prospectus and has filed an arbitration claim against Medbox. And
19 that's about par for the course for Medbox's M&A effort, as two of the three
20 companies it had sought to merge with are now litigating against the company,
21 according to a footnote in the S-1.

22

23 Then there is the share transfer incident. When Mehdizadeh and the Los Angeles
24 district attorney's office negotiated a plea in the legal advisory firm case, Mehdizadeh
25 transferred Vincent Chase Inc., a holding company possessing more than 7 million
26 shares of company stock, to Bedrick, Medbox's chief executive. (Mehdizadeh had
27 named the holding company after the lead character in the HBO series Entourage—
28 an interesting choice, given the character's drug habit and prodigious love life.)

In effect for only two months and disclosed only briefly in the S-1, the move
appeared to have little precedent. Mehdizadeh denied there was a problem, saying
the sale was performed "for the good of the shareholders."

How shareholders were protected is not clear, though, and the Southern Investigative
Reporting Foundation could find no instance of a corporate executive temporarily
deeding his holdings to a colleague.

Mehdizadeh is firmly convinced that had he gone to prison, Bedrick's control of
Vincent Chase Inc. would have protected shareholders from harm. He is astounded
that anyone would question the wisdom of the move: "Are you seriously asking me
what impact a control person of a public company going to trial on 15 felony counts

1 would have on investor confidence?" he said in reply to repeated requests from the
2 Southern Investigative Reporting Foundation to clarify the reasons behind the move.

3 What the move did accomplish, however, was to keep the shares—potentially worth
4 potentially hundreds of millions of dollars when they are registered—out of any
5 settlement negotiations.

6 And questionable share transfers aren't the only things standing out in the Medbox
7 filings.

8 On March 8, a Medbox press release announced a \$6 million equity cash infusion,
9 with \$1 million already paid and \$5 million to arrive in May. Yet, there's no sign of
10 any of this in the company's SEC filings.

11 In April, Medbox filed a Form 10 as part of its effort to register its shares; the only
12 reference to stock sales was this line in a footnote at the very end: "During January
13 2013, the Company received a total of \$71,520 as payment for the sale of 16,000
14 shares of common stock during that period."

15 The S-1 filed in July offered no clues about the whereabouts of the promised
16 millions.

17 Share sales did take place, but not along the lines promised by the press release. A
18 note toward the back of the document stated, "From January 1 through July 11, 2013,
19 the Company sold a total of 331,450 shares of common stock to accredited investors
20 for \$5 per share, or an aggregate of \$1,407,250."

21 62. On November 13, 2013, Medbox filed with the SEC a Form S-1/A-1. The
22 Form S-1/A-1 stated that Defendant Mehdizadeh was the Company's Chief Operating
23 Officer, Chairman of the Board, and acting principal financial officer.

24 63. The Form S-1/A-1 disclosed that Defendant Mehdizadeh's salary was
25 \$180,000, and his total compensation for 2012 was \$410,706. Yet Medbox's net income
26 for the year ended December 31, 2012 was only \$327,853. The next highest paid Medbox
27 officer was Defendant Bedrick, the Chief Executive Officer, who received \$65,000 during
28 the year ended December 31, 2012, which was 15.8% of the amount paid to Defendant
Mehdizadeh.

1 64. The Form S-1/A-1 provided slightly more information about Mehdizadeh's
2 past criminal conduct, but still was deceptive. The Form S-1/A-1 stated in pertinent part:

3 Prior to December 2012, Mr. Mehdizadeh was the CEO and Founder of MDS. Prior
4 to founding MDS, Mr. Mehdizadeh was the Director of Client Relations for the
5 following law offices at various times from 2003 through 2008: Law Office of
6 Donald J. Townley; Law Offices of Frank E. Miller; Law Offices of Thomas R. Lee;
7 Rexford Law Group; and the Moheban Law Firm.

8 Our Board of Directors believes that Mr. Mehdizadeh's qualifications to serve as a
9 Director of Medbox include his experience and knowledge of our main product as
10 the founder of MDS and the creator of the Medbox as well as his knowledge of the
11 alternative medicine market as a result of such experience.

12 In 2007, Mr. Mehdizadeh was involved in the sale of his automobile to a private
13 party. The transaction terms were in dispute by the parties and Mr. Mehdizadeh pled
14 no-contest to charging the vehicle purchaser's credit card without express written
15 consent. The matter was resolved with Mr. Mehdizadeh receiving and successfully
16 completing probation. Mr. Mehdizadeh has applied for an expungement of the record
17 and is awaiting the outcome of that request, which should result in a deletion of the
18 record.

19 During 2005-2008, Mr. Mehdizadeh was the non-attorney manager for a law firm.
20 In 2008 the supervising attorney whom clients had retained to handle their legal
21 matters retired and left clients without representation. The department of consumer
22 affairs of Los Angeles investigated the matter and decided to recommend
23 prosecution against Mr. Mehdizadeh and not Mr. Mehdizadeh's attorney employer.
24 After a 15 count criminal complaint was filed in 2010, in order to avoid a trial and
25 ongoing bad publicity, Mr. Mehdizadeh pled no-contest to two counts related to theft
26 since money was accepted by the attorney and work had not been completed due to
27 the attorney retiring. Mr. Mehdizadeh accepted the terms of the plea that called for
28 probation and that once Mehdizadeh's probation is complete, it was pre-negotiated
that the record of the incident be deleted. Mr. Mehdizadeh maintains his innocence
and believes he was unfairly targeted.

65. On November 19, 2013, Defendants Mehdizadeh and Bedrick published
Medbox's quarterly report for the quarter ended September 30, 2013 on OTCmarkets.com,
but did not file it with the SEC.

1 66. The quarterly report disclosed the following financial results: (1) as of
2 September 30, 2013, the Company had total current assets of \$3,276,992, and, as of
3 December 31, 2012, total current assets of \$3,456,802; (2) as of September 30, 2013, the
4 Company had total assets of \$6,464,170, and, as of December 31, 2012, the Company had
5 total assets of \$3,512,670; (3) the Company earned revenues in the amount of \$2,079,454
6 for the three months ended September 30, 2013; (4) the Company earned revenues in the
7 amount of \$5,046,634 for the nine months ended September 30, 2013; (5) the Company's
8 net income was in the amount of \$258,945 for the three months ended September 30, 2013;
9 and (6) the Company's net income was in the amount of \$388,284 for the nine months ended
10 September 30, 2013.

11 67. The quarterly report stated that Medbox's financial results for the year ended
12 December 31, 2012 were "restated." The quarterly report did not provide an explanation
13 for the restatement.

14 68. On November 20, 2013, Medbox announced its financial results for the
15 quarter ended September 30, 2013, boasting of "record revenues" in its press release.
16 Medbox reported that it earned \$5.05 million in revenues during the nine months ended
17 September 30, 2013, and that it earned \$2.08 million in revenues during the three months
18 ended September 30, 2013. The financial results were posted on the Company's website
19 and on the Company's landing page on the OTC Markets website.

20 69. The press release also stated "'We have had another record breaking quarter,
21 which provides further validation that our business plan is solid and our operating strategy
22 is sound,' stated Dr. Bruce Bedrick, CEO of Medbox, Inc. 'As we move forward, we will
23 24 25 26 27 28

1 continue to seek out opportunities that provide growth for our company and added value for
2 our shareholders."

3
4 70. On January 21, 2014, Medbox filed a Form 10 with the SEC. The Form 10
5 stated that Defendant Mehdizadeh beneficially owned or controlled 63.6% of Medbox's
6 outstanding common stock, and Defendant Bedrick beneficially owned 24.7% of Medbox's
7 outstanding common stock.

8
9 71. The Form 10 stated that total compensation paid during 2012 by the Company
10 to Defendant Mehdizadeh was \$262,500 and to Defendant Bedrick was \$34,729.

11 72. The Form 10 did not account for its contradicting the Form S-1/A-1 filed on
12 November 13, 2013, which stated that total compensation paid during 2012 by the Company
13 to Defendant Mehdizadeh was \$410,706 and to Defendant Bedrick was \$65,000.

14
15 73. The Form 10 also provided Medbox's financial results. These financial results
16 restated financial results that Medbox previously reported on filings with OTCmarkets.com.

17 74. Yet, Medbox's Form 10 did not acknowledge that it had thus made such a
18 restatement, let alone provide an explanation for the restatement.

19
20 75. The Form 10 reported as follows: (1) as of September 30, 2013, the
21 Company had total current assets of \$3,338,218 (previously reported \$3,276,992 with
22 OTCmarkets.com); (2) as of December 31, 2012, the Company had total current assets of
23 \$3,495,156 (previously reported \$3,456,802 with OTCmarkets.com); (3) as of September
24 30, 2013, the Company had total assets of \$7,422,866 (previously reported \$6,464,170
25 with OTCmarkets.com); (4) as of December 31, 2012, the Company had total assets of
26 \$7,422,866 \$3,551,024 (previously reported \$3,512,670 with OTCmarkets.com); (5)
27
28

1 the Company earned revenues for the three months ended September 30, 2013 in the amount
2 of \$1,980,720 (previously reported \$2,079,454 with OTCmarkets.com); (6) the Company
3 earned revenues for the nine months ended September 30, 2013 in the amount of
4 \$4,801,062 (previously reported \$5,046,634 with OTCmarkets.com); (7) the Company had
5 a net loss for the three months ended September 30, 2013 in the amount of \$178,925
6 (previously reported net income of \$258,945 with OTCmarkets.com); and (d) the Company
7 had a net loss for the nine months ended September 30, 2013 in the amount of \$43,825
8 (previously reported net income of \$388,284 with OTCmarkets.com).
9

11 76. The letter that the SEC sent to Medbox on February 14, 2014 delineated
12 various defects in the Form 10 that the Company filed with the SEC on January 21, 2014.
13 Some of the defects that the SEC stated had to be corrected are as follows:
14

- 15 ○ incorrect pagination;
- 16 ○ misleading descriptions of Medbox's business and "geographic reach;"
- 17 ○ failure to define key terms;
- 18 ○ failure to include necessary attachments;
- 19 ○ inconsistent description of territories where the Company served
20 consulting clients (i.e., mentioning Oregon on one list and omitting
21 Illinois, Nevada, and Oregon on another);
- 22 ○ failure to provide a basis for the disclosed belief that Medbox was
23 "positioned to be the leader in compliance and inventory control;"
- 24 ○ failure to properly discuss revenue recognition;
- 25 ○ in some places the Company stated it sold a certain number of
26 machines during a certain quarter and in others the Company stated
27 that it had sold the same number during the entire year;
- 28 ○ inexplicably recording \$190,400 in marketable securities as a liability;
- disclosures stating there were no material changes in consolidated
statement of cash flows during a certain period, but disclosing
significant changes in net cash from investing and financing activities
during the same period; and
- failure to explain a substantial salary increase for then-Chief Executive
Officer Bedrick, in addition to numerous other problems. The letter
also states "please ensure that your disclosure [regarding Defendant

1 Mehdezadeh's criminal history] encompasses all aspects of Mr.
2 Mehdezadeh's plea, including the payment of fees in restitution."

3 77. On the morning of February 18, 2014, Medbox issued a press release on
4 February 18, 2014 praising the Obama administration for the new rules that it said would
5 ease the concerns of banks wanting to deal with businesses that legally sell marijuana. In
6 this same press release, Medbox told investors that its Chief Executive Officer, Defendant
7 Bedrick, would be appearing on CNBC'S Closing Bell on February 18, 2014 and on Fox
8 Business the following day on February 19, 2014.

10 78. On February 18, 2014, *Citron Research* ("*Citron*") issued a report entitled
11 "Busting Medbox," which stated that Medbox kept three sets of books and that Defendants'
12 "systemic fraud" and stock promotion had facilitated the Company's \$1 billion market
13 capitalization. The report stated about Defendants' misconduct: "This is a Full On Fraud...
14 It is not as if Medbox is a company that has had a few reporting deficiencies amidst a small
15 but growable business core. Rather, everything they do seems to have an underlying
16 purpose of deception."

17 79. Following the release of the *Citron* report, the Company issued a press release
18 in the afternoon of February 18, 2014 entitled "Medbox Responds to Critics and Issues
19 Status Update to Company Shareholders." The press release states in pertinent part:
20
21

22
23 WEST HOLLYWOOD, Calif., Feb. 18, 2014 /PRNewswire/ -- Medbox, Inc.
24 (OTC Markets: MDBX) (www.medboxinc.com), a leader in providing
25 consulting services and patented systems to the medical and retail industries,
26 issued a status update to its shareholders on past, present, and future projects.
27 **Company executives also commented on bloggers looking to discredit the**
28 **company for financial gain and law firms looking to capitalize on**
misinformation in order to solicit clients.

1 The following is a summary of key events occurring in recent weeks:

- 2 • Medbox filed its Form 10 with the SEC in January and **will be an SEC filer,**
 3 **with all the burdens and benefits that result from that status, as of mid-**
 4 **March 2014.**

5

6 Company executives clarified their position on the restatement of financials
 7 that accompanied the Form 10 registration statement filed with the SEC as a
 maturation process in becoming an SEC filer.

8 "The company undertook a project to bring all accounting functions in house
 9 and during that lengthy process we discovered some errors in accounting
 10 which we have since corrected in the latest financials included in the Form
 11 10. **The point is getting it right and being fully transparent with our**
 12 **shareholders at all times,"** stated Vincent Mehdizadeh, Board Chairman at
 Medbox, Inc. **"The company has, as part of those corrections, instituted**
 13 **better controls over financial reporting to avoid further corrections.** In
 14 addition, it is important to note that revenues for the nine months of 2013 had
 15 increased over the comparative period of the prior year (as corrected) and we
 are continuing to add skilled people to accelerate our growth in 2014.
 Unfortunately, when you are the most visible company in the space, with a
 large market capitalization, you become a target."

16 **Company executives caution company shareholders that while the media**
 17 **has been extremely supportive of Medbox as one of the only viable**
 18 **medical marijuana related public companies, with success there will**
 19 **always be opponents that publish deceptive and misleading articles about**
the company and its executives.

20 In addition, company executives clarified that the company offers support
 21 services to the medical marijuana sector on an arm's length basis. Often times
 22 in a state where applications are being accepted for marijuana dispensary
 licensing, some landlords would not lease to the newly formed non-profit
 23 entities formed for the company's clients. As a result, in some rare instances
 and simply as an absolute benefit to their clients, it was agreed that Medbox
 24 would lease the properties and assign all rights to the applicant, with the
 permission of the landlord.

25 "We go the extra mile for our clients and that is evident through our glowing
 26 testimonials displayed on our websites," stated Dr. Bruce Bedrick, CEO at
 27 Medbox, Inc. "Interestingly, with the recent banking policy guidance by the
 28 federal government, we can now start to develop an additional revenue stream

1 of acquiring properties and leasing to our dispensary operator clients. This is
2 one of many revenue streams that Medbox is actively developing given the
3 current climate and relaxed federal posture."

4 (Emphasis added).

5 80. On March 31, 2014, Medbox filed a Form 10 A-1 with the SEC, which
6 included its audited financials for the year ended December 31, 2013. Medbox reported
7 revenues of \$5.2 million for the year ended December 31, 2013, representing a 101.7%
8 increase relative to the revenues it reported for the year ended December 31, 2012.

9 81. The Form 10 A-1 also provided slightly more information about Defendant
10 Mehdizadeh's past criminal conduct than was disclosed in the Form S-1/A-1 filed with the
11 SEC on November 13, 2013; but, the Form 10 A-1 was still deceptive. The Form 10 A-1
12 thus stated in pertinent part:
13

14 In 2007, Mr. Mehdizadeh was involved in the sale of his automobile to a private
15 party. The transaction terms were in dispute by the parties and Mr. Mehdizadeh pled
16 no-contest to charging the vehicle purchaser's credit card without express written
17 consent. The matter was resolved with Mr. Mehdizadeh receiving and successfully
18 completing probation. Mr. Mehdizadeh has applied for an expungement of the record
19 and is awaiting the outcome of that request, which should result in a deletion of the
20 record.

21 During 2005-2008, Mr. Mehdizadeh was the non-attorney manager for a law firm.
22 In 2008 the supervising attorney, Thomas R. Lee [CA SBN 61858], whom clients
23 had retained to handle their legal matters retired and left clients without
24 representation. The department of consumer affairs of Los Angeles investigated the
25 matter and decided to recommend prosecution against Mr. Mehdizadeh and not Mr.
26 Mehdizadeh's attorney employer, Mr. Lee. After a 15 count criminal complaint was
27 filed in 2010, in order to avoid a trial and ongoing bad publicity, Mr. Mehdizadeh
28 pled no-contest in 2013 to two counts related to theft that resulted in probation.
Under the terms of a negotiated plea agreement, Mr. Mehdizadeh voluntarily paid
\$450,000 in restitution to clients of Mr. Lee's office. Mr. Mehdizadeh accepted the
terms of the plea that provided that once Mehdizadeh's probation is complete, the
record of the incident be deleted. Mr. Mehdizadeh maintains his innocence and
believes he was unfairly targeted.

1 82. On April 11, 2014, Medbox filed a Form 8-K with the SEC that stated that
2 Defendants Feinstein and Siegel had been elected to the Medbox Board of Directors on
3 April 9, 2014.

4
5 83. The Form 8-K also disclosed that Defendant Mehdizadeh resigned as Chief
6 Operating Officer and as Director, but was appointed "Senior Strategist and Founder of the
7 Company" on April 10, 2014.

8
9 84. On April 11, 2014, SEC sent a letter to Medbox that not only stated that the
10 Form 10 A-1 filed by the Company with the SEC on March 31, 2014 needed to correct and
11 provide more complete disclosure about Defendant Mehdizadeh's criminal history, but also
12 delineated numerous defects in the Form 10 A-1 that Medbox had to correct.

13
14 85. On June 27, 2014, Medbox filed a Form 10-Q/A with the SEC ("Q1 2014 10-
15 Q/A"), which included financial results for the quarter ended March 31, 2014. The Q1 2014
16 10-Q/A announced revenue of \$294,550 for the first quarter of 2014. The Q1 2014 10-Q/A
17 and the accompanying Sarbanes-Oxley Certifications were signed by Defendants Bedrick
18 and Iwanski.

19
20 86. On July 1, 2014, the Company issued a press release entitled "Medbox
21 Becomes a Fully Reporting Public Company - Company's Form 10 deemed effective by
22 SEC." The press release stated that "the Company's Form 10 filing has been deemed
23 effective by the Securities and Exchange Commission, with no outstanding comments left
24 to address."

25
26 87. On July 24, 2014, Medbox issued a press release entitled "Medbox Appoints
27 Mr. Guy Marsala as CEO." The press release stated that Defendant Bedrick was resigning
28

1 as the Company's Chief Executive Officer and President. The press release stated that
2 Defendant Marsala would replace Defendant Bedrick in each of those positions, but also
3 would be the Company's Chairman.
4

5 88. On August 14, 2014, Medbox filed a Form 10-Q with the SEC, which
6 included financials for the quarter ended June 30, 2014 ("Q2 2014 10-Q"). The Q2 2014
7 10-Q announced revenue of \$434,448 for the second quarter of 2014. The Q2 2014 10-Q
8 and the accompanying Sarbanes-Oxley Certifications were signed by Defendants Marsala
9 and Iwanski.
10

11 89. On August 22, 2014, Medbox filed a Form 8-K with the SEC that stated that
12 Defendant Bedrick resigned as Company Director, but that he would continue with the
13 Company as a consultant.
14

15 90. During August 2014, according to a complaint later filed by Medbox in an
16 unrelated proceeding, Defendant Mehdizadeh and Medbox learned that the DOJ had served
17 grand jury subpoenas on Q Accountancy and a certified public accountant named Alex
18 Anguiano. According to Medbox's complaint, the subpoenas sought "all documents related
19 to financial transactions involving Medbox." The Individual Defendants breached their
20 fiduciary duty by failing to disclose the service of these subpoenas and the existence of the
21 grand jury investigation to the investing public.
22

23 91. On October 17, 2014, Medbox filed a Form 8-K with the SEC that stated
24 Defendant Mehdizadeh resigned as an officer of Medbox on October 13, 2014. The Form
25 8-K stated that Defendant Mehdizadeh would continue with the Company as a consultant,
26 and whose title would be "Founder and Senior Advisor."
27
28

1 92. On October 21, 2014, Medbox filed a Form 8-K with the SEC that stated that
2 Defendant Iwanski resigned as the Chief Financial Officer. The Form 8-K stated that
3 Defendant Mitchell would replace him as the Chief Financial Officer.
4

5 93. On October 28, 2014, Medbox filed a Form 8-K with the SEC that for the first
6 time referred to the Company's having an audit committee. The Form 8-K stated that
7 Defendant Love, who became a Company Director on October 24, 2014, would serve as
8 the Chair person of the Company's Audit Committee.
9

10 94. On October 31, 2014, Medbox filed a Form 8-K with the SEC that disclosed
11 that on October 27, 2014 the Company's board of directors appointed a special committee
12 to investigate the documents sought by the grand jury and the subpoenas served on the
13 Company's accountants and the allegations in a letter sent to the SEC by a former Medbox
14 employee, including that Defendant Mehdizadeh engaged in insider trading and securities
15 fraud.
16

17 95. The Form 8-K stated that the special committee was comprised of all of
18 Medbox's directors at the time the Form 8-K was filed: Defendants Lowe, Siegel, Love,
19 and Marsala.
20

21 96. On October 31, 2014, Medbox filed another Form 8-K with the SEC that
22 stated that Defendant Feinstein resigned as a Company director on October 30, 2014, but
23 that he would continue serving Medbox as Vice President.
24

25 97. On November 3, 2014, Defendant Mehdizadeh issued a press release entitled
26 "Medbox Comments on Recent 8-K Filing." Although the title of the press release made
27
28

1 it appear that the Company issued it, it was not posted on the Company's website along with
2 other Company press releases.

3 98. Defendant Mehdizadeh's press release stated that none of the Defendants or
4 Medbox had received subpoenas, that that Company found that the letter sent to the SEC
5 by the Company's former employee was not truthful, and that the former employee sent the
6 letter in retaliation for the Company's not agreeing to the settlement terms he demanded
7 related to the employment claims he made in a lawsuit that was dismissed.
8

9 99. Defendant Mehdizadeh's press release stated in pertinent part:
10

11 LOS ANGELES, Nov. 3, 2014 /PRNewswire/ -- Medbox, Inc., (OTCQB: MDBX),
12 the leading licensing, infrastructure and security specialist, patented technology
13 provider, and partner to the cannabis industry, commented on the recent 8-K filing
14 discussing matters pertaining to a former employee of the company who filed an
15 employment claim and sent a letter to certain government agencies asserting claims
16 against the Company. The former employee subsequently lost the employment
17 claim. However, the Company is now internally investigating the letter's contents to
18 ascertain validity of the claims.

19 The 8-K references that the Board of Directors of Medbox, Inc. appointed a special
20 board committee to investigate, review, and evaluate a letter involving the Company,
21 sent in May 2014 to certain government agencies by a former employee of Medbox.
22 Within the last few weeks, Medbox was awarded a judgment against this employee
23 on his employment claims, which demanded \$1.5 million in damages related to the
24 Company's alleged wrongdoing. Prior to litigation of the employment claim, and
25 after repeated settlement demands were made by the former employee and rebuffed
26 by Medbox, the employment claim was filed and sent along with a letter to
27 government agencies by the former employee, alleging wrongdoing by the company.

28 Mr. Vincent Mehdizadeh, Founder and Consultant to Medbox stated, "The former
employee vowed to retaliate against the Company in any way he could after his
illegal cash demands of the company were ignored. It now appears that writing a
letter to government agencies filled with factual inaccuracies and blatant falsehoods
was the most effective way to facilitate that goal."

Current management commented that the Company has not found any indications
that the subject matter contained in the letter is true concerning the conduct of prior
officers of the company. However, the company's internal investigation on the

1 matter is still in process. The Company also clarified that no subpoenas have been
2 served on the Company, it's [sic] current or former officers, or anyone affiliated to
3 the Company.

4 Mr. Mehdizadeh added, "I painstakingly put together the best management team and
5 Board of Directors in our sector for a reason, and in their judgment this voluntary
6 disclosure is what good public companies that have nothing to hide should do. The
7 company will continue to demonstrate to shareholders, the investment community,
8 and all other public company participants in the cannabis sector, how a well-run and
9 respectable public company should operate. Medbox has and will continue to be the
10 gold-standard for accountability."

11 100. On November 4, 2014, the media noted that -- as to the identity of the former
12 officer of Medbox who currently serves Medbox in a consultant, and who is the alleged
13 wrongdoer in the letter sent by the former employee to the SEC -- according to the
14 Company's Form 8-K about appointment of the special committee, it could be one of three
15 Defendants. Indeed, each of Defendants Mehdizadeh, Bedrick, and Iwanski resigned in
16 2014 as officers, but stayed on as Company consultants.

17 101. On November 6, 2014, Defendant Mehdizadeh issued another press release
18 entitled "Online Publication Retracts Headline Implying Medbox is Under Investigation,"
19 without causing it to appear as though it was issued by Medbox. The press release stated
20 in pertinent part:

21 LOS ANGELES, CA / ACCESSWIRE / November 6, 2014 / P. Vincent Mehdizadeh
22 - Founder and Majority shareholder of Medbox, Inc. (OTCQB: MDBX) commented
23 today that online publications, thestreet.com and thedeal.com retracted a headline
24 that incorrectly asserted that Medbox is under investigation by the SEC.

25 "I am personally relieved that the headline and key pieces of the article were
26 corrected," commented Mehdizadeh. "However, the damage to investor confidence
27 yesterday was substantial and I am meeting with my legal team to discuss possible
28 remedies available to make an example out of this online publication and to ensure
incorrect information is never disclosed about the company again."

1 102. On November 7, 2014, the Company filed a Form 8-K with the SEC that
2 stated that "the news release issued Monday, November 3, 2014 under the headline 'Medbox
3 Comments on Recent 8-K Filing' was not authorized by Medbox, Inc. ... for distribution.
4 The 8-K filed by the Company on Friday, October 31, 2014, should be used as a reference
5 for information regarding this matter."

7 103. On November 12, 2014 the Company filed a quarterly report on Form 10-Q
8 with the SEC that contained financial results for the quarter ended September 30, 2014 ("3Q
9 2014 10-Q"). The 3Q 2014 10-Q stated that the Company had earned revenues in the
10 amount of \$107,429 for the three months ended September 30, 2014.

12 104. The 3Q 2014 10-Q also disclosed that the SEC is conducting an investigation
13 pertaining to Medbox and that it had served a subpoena on Medbox. The 3Q 2014 10-Q
14 thus stated in pertinent part:

16 On November 10, 2014, the Los Angeles Regional Office of the Securities and
17 Exchange Commission (the "SEC") notified the Company that it is conducting an
18 investigation pertaining to the Company and issued a subpoena to the Company for
19 documents from December 1, 2011 to the present relating to the matters it is
20 reviewing. The Company plans to cooperate fully with the SEC staff to complete the
21 investigation on a timely basis.

22 105. On December 2, 2014, Medbox's current board of directors conveyed to
23 Defendant Mehdizadeh that they believed that Medbox had previously incorrectly
24 recognized revenue under his leadership. Defendant Mehdizadeh retaliated by threatening
25 to remove the current directors from the Company's board.

26 106. On December 4, 2014, Defendant Mehdizadeh threatened to remove the
27 entire current board of directors via written consent and then conveyed to the Company's
28 directors and officers they were "terminated as officers of any and all Medbox companies,

1 with cause, effective immediately." Defendant Mehdizadeh thereafter agreed to withdraw
2 his termination demand.

3 107. On December 12, 2014, Defendant Mehdizadeh once again threatened to fire
4 Medbox's directors and officers.

5 108. On December 22, 2014, Medbox filed a Form 8-K with the SEC that stated
6 that "[o]n December 16, 2014, the Board of Directors of Medbox, Inc. (the "Company")
7 amended the Company's Amended and Restated Bylaws to prohibit action by written
8 consent without a meeting of the stockholders of the Company."
9

10 109. On December 30, 2014, the Company filed a Form 8-K with the SEC that
11 disclosed that the Company's Audit Committee discovered evidence of the falsity of the
12 statements about the Company's financial results that it had previously disclosed. The Form
13 8-K stated in pertinent part.
14

15 the consolidated financial statements for the year ended December 31, 2013 and for
16 the third and fourth quarters therein, as well as for the quarters ended March 31,
17 2014, June 30, 2014 and September 30, 2014, together with all three, six and nine
18 month financial information contained therein, should no longer be relied upon and
19 will be restated to correct the errors. Therefore, all earnings press releases and similar
20 prior communications issued by the Company as well as other prior statements made
21 by or on behalf of the Company relating to financial reporting or results for those
22 periods should not be relied upon. Lastly, as part of the investigation process, the
23 Company will also examine its financial statements for 2012 and the first two
24 quarters of 2013 and if necessary correct those as well.

25 110. The Form 8-K also admitted that Medbox had been recognizing revenue "too
26 soon on some customer contracts," which caused the need for restatements of the
27 Company's financial results.

28 111. The Form 8-K also stated that the Company was served subpoenas from the
federal grand jury and the SEC after the special committee was appointed in October 2014.

112. The Form 8-K also stated that Defendant Marsala resigned from the special committee in order for it to be comprised entirely of independent directors.

113. Also on December 30, 2014, Medbox issued a press release entitled "Medbox, Inc. To Amend and Restate Prior Period Financial Statements." The press release stated, *inter alia*, that "[t]he company intends to correct the errors in its financial statements to bring them into conformity with accounting principles generally accepted in the United States of America (GAAP) and SEC regulations. Medbox plans to engage an independent CPA firm to consult with and assist the Company's staff with preparing restated financial statements as soon as possible."

114. Later that same day, Defendant Mehdizadeh issued a press release entitled "Medbox's Largest Shareholder Comments on Recent Events and the Company's Outlook for 2015." The press release stated that Defendants Mehdizadeh and Iwanski as well as Q Accountancy conveyed to Medbox that they believed that the revenue the Company previously reported did not need to be restated.

115. Defendant Mehdizadeh's press release stated in pertinent part:

LOS ANGELES, CA--(Marketwire - Dec 30, 2014) - P. Vincent Mehdizadeh -- Founder and Majority Shareholder of Medbox, Inc. (OTCQB: MDBX) issued a letter to fellow shareholders today regarding his vision for the future of the company and insight into recent developments affecting the company.

The letter stated:

"Dear Medbox Shareholders:

It has truly been an interesting journey during the last 2 years. When I commenced operations of the private company in 2010 that later became Medbox, I never anticipated that the company would be as noteworthy and relevant as we are today. The company has a rare blend of consulting and patented technology that gives entrepreneurs a jumpstart on realizing their dreams of operating a business in a newly

1 emerging industry. I have thoroughly enjoyed watching our client's dreams be
2 realized, along with our shareholders that have watched our company grow and
3 prosper over these years.

4 Medbox rocketed to stardom and notoriety amidst a positive outlook for the
5 marijuana industry in November of 2012 based on favorable election results and
6 highlighted by several media sources, including the Wall Street Journal, which
7 ushered in what many have called the 'Green Rush.' In the days that followed, the
8 company's stock price saw unprecedented increases that was said to have resulted
9 from investors looking to participate in 'The Next Great American Industry.' Up until
10 3 months ago, I was involved in almost every decision the company made, and my
11 decision at that time was to caution investors about investing in any company in the
12 marijuana industry because of the inherent risks. We also publicly cautioned
13 investors to temper their expectations about our stock and to make informed
14 investment decisions. The company fielded criticism in doing so, but we felt that
15 separating ourselves from other public company industry participants in our sector
16 and focusing on protecting investors as best we could was a beneficial direction for
17 the company. In my opinion, one of the keys to Medbox's success has been superior
18 corporate messaging and timely dissemination of information to our shareholders.

19 Since that point in time a little over two years ago, I have made it my mission to take
20 the company from being a non-reporting pinksheet to being a fully reporting SEC
21 Filer. I took it upon myself to set these goals and achieve them for the benefit of the
22 company and its shareholders. We did this to have an increased level of transparency
23 so that investors can think of Medbox as the public company standard for
24 respectability and reliability in the newly emerging marijuana industry that was
25 taking shape. As a result, we engaged a Public Company Accounting and Oversight
26 Board (PCAOB) registered auditor, Q Accountancy Corporation, and also hired a
27 full-time Chief Financial Officer, Thomas Iwanski, a CPA with excellent references
28 and extensive public company experience.

Since the company engaged Mr. Iwanski and Q Accountancy Corporation, I also
recruited a star-studded board and together we appointed Guy Marsala to lead the
company as the Chief Executive Officer. As it was explained to me, in situations
where a new CEO is brought on, they typically look to appoint their own Chief
Financial Officer. Thus, when Mr. Marsala decided to replace Mr. Iwanski as CFO,
I did not give it a second thought, although I was sad to see him go since his
experience with public company oversight was superb.

Today, the company's current management issued a statement regarding the
company's financials. Prior management, including Mr. Iwanski and the company's
current auditor, both disagree with current management's position on the matter.
Both the current auditor and prior CFO have made their opinions known to current
management, to no avail. Both have stated that they had support for recognizing

1 revenue in the periods in which they were recognized. However, the company's
2 current CFO has a difference of opinion on that aspect and believes that the revenue
3 in question should be recognized in later periods, which has now resulted in a
4 proposed restatement set to occur. This fact along with the fact that the revenue items
in dispute amount to less than 10% of the total revenue booked for 2013, was not
accurately discussed in the disclosure released this morning.

5 As stated previously in this letter, corporate messaging and communication to
6 shareholders is one of the many aspects that made Medbox a great company. I now
7 feel the company is not doing enough to accurately disclose matters in a manner that
8 is easy to understand and digest by the public. Stating that the current CFO has a
9 difference of opinion with the prior CFO and current auditor would have gone a long
10 way to explaining the situation properly. Instead, we have the inaccurate and
incomplete disclosure that was released today that leaves the public with more
questions than giving them the answers they need to understand the situation.

11 As we were on a path to transition to NASDAQ and had filed an application to be
12 listed on that exchange, I felt that since I had a checkered past that was disclosed in
13 company filings it would tarnish the Medbox brand if I stayed involved in any
14 capacity other than as a consultant to the company. Although these offenses were
15 non-violent, non-securities related offenses, all of which resulted in probation and
16 all occurring prior to Medbox, I still felt that the company would always be a target
17 of 'short and distort' campaigns by financial bloggers if I remained an Officer or
18 Director. To that end, I recently gave full control to the board and current
19 management to steer the ship and navigate the company properly. Recent events have
20 caused me to call into question whether current management and the board of
directors has enough industry experience to properly run this company. It is for this
reason that I will be adding industry-experienced members to the board to work with
the current board members to more effectively operate the company. I will also be
taking a more active role with the company again to ensure our short-term and long-
term goals can be achieved.

21 I believe that a founder's passion separates a typical company from a company that
22 achieves the utmost success. The company needs my help now more than ever, and
23 I intend to fill that need to the best of my ability going forward. I look forward to a
strong and prosperous future for Medbox.

24 Regards,
25 P. Vincent Mehdizadeh"

1 116. On December 31, 2014, Medbox filed a Form 8-K with the SEC stating that
2 Defendant Siegel was appointed the Company's Chairman. Defendant Marsala remained a
3 director of the Company.
4

5 117. On January 9, 2015, Defendant Mehdizadeh filed a Schedule 14C with the
6 SEC stating that, in lieu of a special meeting of stockholders, the majority of Medbox's
7 stockholders executed a written consent that day to replace all of Medbox's current directors
8 with Defendants Feinstein and Mehdizadeh and with Jaime Ortega and David Trecek.
9

10 118. On January 16, 2015, the Company filed a complaint in the Superior Court of
11 California for the County of Los Angeles that claimed the January 9, 2015 written consent
12 was not legally effective. The complaint stated that the current board of directors had
13 discovered "significant" evidence related to Defendant Mehdizadeh's conduct while
14 employed in various capacities at Medbox. The complaint stated that Defendant
15 Mehdizadeh engaged in the following misconduct while serving at Medbox:
16

- 17 • engaged in manipulation of Medbox's revenue recognition and other financial
- 18 disclosures;
- 19 • made public statements related to Medbox that contained false and/or misleading
- 20 information;
- 21 • potentially violated numerous securities laws;
- 22 • engaged in what appear to be improper transactions involving third-party
- 23 affiliates;
- 24 • made material misrepresentations to Medbox's investors and/or potential
- 25 investors; and
- 26 • ignored and/or attempted to hide significant accounting and other financial
- 27 control and oversight issues existing at Medbox.
- 28

119. On January 26, 2015, the Company filed a Form 8-K with the SEC that
disclosed that on January 21, 2015, the Company and Defendant Mehdizadeh entered an
agreement that he and the entities he controlled would withdraw the written consent to

1 replace the Company's board of directors; that the Company would dismiss with prejudice
2 the complaint it filed in the Superior Court of California for the County of Los Angeles;
3 that Defendant Mehdizadeh and the entities he controlled would vote for the current board
4 members to remain as directors; that "the Board would meet with Mr. Mehdizadeh on
5 specified dates during the term of the agreement to discuss and to hear matters of interest
6 or concern of Mr. Mehdizadeh, as a stockholder of the Company;" that Defendant
7 Mehdizadeh and the entities he controlled would secure a \$1 million investment in Medbox;
8 and that Defendant Mehdizadeh could appoint a fifth director to the Company's board.
9

10
11 120. The agreement, which was attached to the Form 8-K stated that Defendant
12 Mehdizadeh would no longer act as a consultant to Medbox or its subsidiaries, that he would
13 no longer purport to act on behalf of Medbox unless so authorized by the Company's board
14 or the agreement, and that he would not "contact or interfere with any Medbox employees,
15 consultants, directors or shareholders."
16

17 121. The agreement also gave Defendant Mehdizadeh and the entities he
18 controlled the right to review Medbox's documents in order to assist with the Company's
19 investigation of its 2012, 2013, and 2014 financial statements and to provide a summary to
20 assist the Company's management with managing Medbox.
21

22 122. Additionally, the agreement stated that Medbox's chairman Defendant Siegel
23 would meet with Defendant Mehdizadeh regularly to discuss his concerns. The agreement
24 thus stated in pertinent part:
25

26 Medbox shall cause one or more of its directors, initially Siegel, to meet and confer
27 in good faith with VM not less infrequently than semi-monthly (or on a different
28 frequency as mutually agreed by Medbox and VM) to hear and discuss any matters
of interest or concern of VM, as a shareholder of Medbox. These matters shall

1 initially include, but are not limited to (i) adequacy of Medbox's staffing, (ii)
2 implementation of new consulting arrangements related to executed amendments to
3 client consulting agreements previously agreed to by Medbox but not yet tendered
4 to clients as promised, to ensure client satisfaction and (iii) Medbox's completion of
its evaluation, through Singer Lewak, of its prior period financial reporting.

5 123. On February 6, 2015, Medbox filed a Form 8-K with the SEC that stated that
6 it replaced Q Accountancy as its independent auditor with Marcum LLP.

7 124. On March 4, 2015, Defendant Mehdizadeh filed with the SEC a Schedule
8 13D/A that reported that he agreed to sell his 62% stock interest in Medbox to Lizada
9 Capital LLC for \$15 million.
10

11 125. On March 9, 2015, Medbox filed a Form 8-K with the SEC that provided
12 results of its investigation of the Company's financial statements for 2012, 2013, and 2014.
13 The Form 8-K stated in pertinent part:
14

15 As a result of certain errors described below, discovered in connection with such
16 comprehensive review, the Audit Committee, upon management's recommendation,
17 concluded on March 6, 2015 that, in addition to the restatements announced in the
18 Original 8-K, the consolidated financial statements for the year ended December 31,
19 2012, together with all three, six and nine month financial information contained
20 therein, and the quarterly information for the first two quarters of the 2013 fiscal
21 year, should no longer be relied upon and will be restated to correct the errors.
Therefore, all earnings press releases and similar prior communications issued by
the Company as well as other prior statements made by or on behalf of the Company
relating to financial reporting or results for those periods should not be relied upon.

22 Management and its professional advisor have completed the review of revenues
23 recognized and related contracts for the years 2012 and 2013 and interim period for
24 the nine months ended September 30, 2014. Conclusions thus far from the review
include:

25 1) revenue on some contracts with customers was recognized before all required
26 revenue recognition criteria were met, resulting in an overstatement of revenue in
27 ranges of approximately \$1,300,000 to \$1,500,000, \$3,000,000 to \$3,200,000 and
28 \$600,000 to \$900,000 for the years 2012, 2013 and the nine months ended September
30, 2014, respectively;

1 2) certain transactions with related parties in ranges of approximately \$500,000 to
2 \$600,000 and \$800,000 to \$900,000, for 2012 and 2013, respectively were
3 improperly recorded as revenue instead of additional paid in capital in stockholders'
equity; and,

4 3) certain inventory costs were capitalized improperly resulting in an understatement
5 of cost of sales. Costs of approximately \$600,000 and in a range of approximately
6 \$1,300,000 to \$1,400,000, for 2013 and the nine months ended September 30, 2014,
7 respectively previously reported in inventory in 2013 and 2014, respectively, will be
8 recorded as cost of sales in the statement of operations for 2013 and the nine months
9 ended September 30, 2014, respectively. These costs incurred prior to executing a
contract with a customer, seeking licenses and locations and closing on real estate to
operate a dispensary or cultivation center should have been recorded as current
period expense.

10 126. On March 11, 2015, the Company filed with the SEC a Form 10 A-3 that
11 amended the Form 10 the Company filed originally with the SEC on January 21, 2014.

12 127. On March 11, 2015, the Company additionally filed with the SEC a Form 10-
13 Q A-1 that amended the Form 10-Q the Company filed originally with the SEC on
14 November 11, 2014.

15 128. On March 11, 2015, the Company lastly filed with the SEC a Form 10-Q A-
16 1 that amended the Form 10-Q the Company filed originally with the SEC on August 14,
17 2014.

18 129. On March 11, 2015, the Company also filed with the SEC a Form 10-Q A-3
19 that amended the Form 10-Q the Company filed originally with the SEC on May 15, 2014.

20 **DAMAGES TO MEDBOX**

21 130. As a direct and proximate result of the Individual Defendants' conduct,
22 Medbox has expended and will continue to expend significant sums of money.

23 131. Such expenditures include, but are not limited to, legal fees associated with
24 the class action lawsuits filed against the Company and four of the Individual Defendants
25
26
27
28

1 for violations of the federal securities laws, and amounts paid to outside lawyers,
2 accountants, and investigators in connection with any internal investigations, the SEC
3 investigation and the federal grand jury investigation, and any fines and/or settlement
4 payments that the Company may have to pay after the investigations and any related
5 potential prosecution are completed.

7 132. Such costs include, but are not limited to, compensation and benefits paid to
8 the Individual Defendants who breached their fiduciary duties to the Company.

10 133. Additionally, the Company's earnings restatement had triggered a default by
11 the Company on its debt covenants, forcing the Company to seek a forbearance from
12 lenders, and causing an increase to the Company's cost of borrowing funds.

13 134. As a direct and proximate result of the Individual Defendants' conduct,
14 Medbox has suffered and will continue to suffer a loss of reputation and goodwill, and a
15 "liar's discount" that will plague the Company's stock in the future due to the
16 misrepresentations made by the Individual Defendants and caused to be made by the
17 Company by the Individual Defendants.

19 **DERIVATIVE ALLEGATIONS**

20
21 135. Plaintiff brings this action derivatively and for the benefit of Medbox to
22 redress injuries suffered, and to be suffered, as a result of the Individual Defendants'
23 breaches of their fiduciary duties as directors and/or officers of Medbox and unjust
24 enrichment, as well as the aiding and abetting thereof.

26 136. Medbox is named solely as a nominal party in this action. This is not a
27 collusive action to confer jurisdiction on this Court that it would not otherwise have.
28

1 137. Plaintiff is, and at all relevant times has been, a Medbox shareholder. Plaintiff
2 will adequately and fairly represent the interests of Medbox in enforcing and prosecuting
3 its rights, and, to that end, has retained competent counsel, experienced in derivative
4 litigation, to enforce and prosecute this action.

6 **DEMAND FUTILITY ALLEGATIONS**

7 138. Plaintiff incorporates by reference and re-alleges each and every allegation
8 stated above as if fully set forth herein.

9 139. A pre-suit demand on the Board of Medbox is futile and, therefore, excused.
10 At the time of filing of this action, the Board consisted of the following four Individual
11 Defendants: Siegel, Lowe, Marsala, and Love (collectively, the "Current Directors").
12 Plaintiff needs only to allege demand futility as to two of the four Current Directors.

13 140. All of the Current Directors are beholden to Defendant Mehdizadeh and were
14 appointed as directors by him only.

15 141. Evidence that the Current Directors are beholden to Defendant Mehdizadeh,
16 who is the most responsible for the knowingly committed fraud at Medbox, is that none of
17 them have sued him, but instead continue to serve him.

18 142. Even after Defendant Mehdizadeh's fraud was exposed to the world, and even
19 after the Current Directors admitted that Defendant Mehdizadeh's engaged in serious
20 misconduct, instead of suing Defendant Mehdizadeh or holding him accountable for his
21 misconduct, the Current Directors knowingly breached their fiduciary duty by causing the
22 Company to enter the agreement with Defendant Mehdizadeh on January 21, 2015 that
23 requires involving him in management of the Company, the Company's internal
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1 investigation, and the Company's restatement of its financial results, and providing him
2 access to the Company's records.

3 143. The January 21, 2015 agreement requires Defendant Mehdizadeh to not
4 remove any of the Current Directors from Medbox's board. That proves that the Current
5 Directors have been and will continue to prioritize the interests of Defendant Mehdizadeh
6 over those of Medbox in exchange for keeping their positions on the board.
7

8 144. Thus, as all of the Directors are disinterested, not independent, and face a
9 substantial likelihood of liability, demand on all of the Current Directors is futile and must
10 be excused.
11

12 145. Additionally, all of the Current Directors have failed to this day to appoint
13 three independent directors to the Company's Audit Committee, as required by the Audit
14 Committee Charter. The only Current Directors who are Audit Committee members are
15 Defendants Love and Siegel.
16

17 146. An audit committee is crucial to a publicly traded company, but especially for
18 Medbox at which fraud has been widespread and at which false financial statements since
19 the Company's inception have been reported in SEC filings. The Current Directors have
20 long been aware of Medbox's financial reporting, revenue recognition, audit, and
21 independent auditor problems, so they were, at a minimum, severely reckless in failing to
22 take even the most basic step in corporate governance to rectify those problems by ensuring
23 that the Audit Committee is properly comprised of sufficient independent directors and that
24 it functions as a publicly traded company's audit committee ordinarily functions.
25
26
27
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1 147. Additionally, even after Defendant Mehdizadeh's fraud was exposed to the
2 world, and even after the Current Directors admitted that Defendant Mehdizadeh's engaged
3 in serious misconduct, the Current Directors failed to cause the enactment of changes to the
4 Company's corporate governance.
5

6 148. Moreover, the Current Directors knowingly participated in the fraud at
7 Medbox by failing to disclose to investors for three months the grand jury investigation
8 pertaining to Medbox.
9

10 149. For these reasons, too, all of the Directors are disinterested and face a
11 substantial likelihood of liability, and demand on all of the Current Directors is futile and
12 must be excused.
13

14 150. Significantly, Defendant Marsala is not only one of the Current Directors but
15 is Medbox's Chief Executive Officer. As Chief Executive Officer of the Company,
16 Defendant Marsala is an employee who derives substantially all of his income from his
17 employment with Medbox, rendering him not independent. Defendant Marsala also signed
18 the 2Q 2014 10-Q, which contained false financial statements. Additionally, Defendant
19 Marsala is a defendant in the securities fraud class actions. For these reasons, alone, in
20 addition to the reasons set forth above, Defendant Marsala faces a substantial likelihood of
21 liability, demand upon him is futile and, demand upon him is, therefore, excused.
22

23 151. Also, in complete abdication of their fiduciary duties, the Current Directors
24 either participated in or were recklessly unaware of the fraudulent scheme to inflate the
25 Company's stock price, and by subsequently failing to timely correct said false and
26 misleading statements of material fact. The fraudulent scheme was intended to make the
27
28

1 Company appear more profitable and attractive to investors, and to increase the Company
2 stock price. As a result, the Current Directors breached their fiduciary duties. Thus, each
3 of the Current Directors face a substantial likelihood of liability, and demand upon them is
4 futile.
5

6 152. Furthermore, demand is excused as to all of the Current Directors because
7 each one of them faces, individually and collectively, a substantial likelihood of liability as
8 a result of their scheme, which renders them unable to impartially investigate the fraud and
9 decide whether to pursue action against themselves and the other perpetrators of the scheme.
10

11 153. Moreover, the Current Directors have longstanding business and personal
12 relationships with each other and the other Individual Defendants that preclude them from
13 acting independently and in the best interests of the Company and the shareholders. These
14 conflicts of interest precluded the Current Directors from adequately monitoring the
15 Company's operations and calling into question the Individual Defendants' conduct. Thus,
16 any demand on the Current Directors is futile, and thus demand is excused.
17

18 154. The Individual Defendants' conduct described herein and summarized above
19 could not have been the product of legitimate business judgments as it was based on bad
20 faith and intentional, reckless, or disloyal misconduct. Thus, none of the Current Directors
21 can claim exculpation from their violations of duty pursuant to the Company's charter (to
22 the extent such a provision exists). As a majority of the Current Directors face a substantial
23 likelihood of liability, they are self-interested in the transactions challenged herein and
24 cannot be presumed to be capable of exercising independent and disinterested judgment
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1 about whether to pursue this action on behalf of the shareholders of the Company.
2 Accordingly, demand is excused as being futile.

3 155. The acts complained of herein constitute violations of fiduciary duties owed
4 by Medbox's officers and directors and these acts are incapable of ratification.
5

6 156. The Current Directors may also be protected against personal liability for their
7 acts of mismanagement and breaches of fiduciary duty alleged herein by directors' and
8 officers' liability insurance if they caused the Company to purchase it for their protection
9 with corporate funds, i.e., monies belonging to the stockholders of Medbox. If there is a
10 directors' and officers' liability insurance policy covering the Current Directors, it may
11 contain provisions that eliminate coverage for any action brought directly by the Company
12 against the Current Directors, known as, *inter alia*, the "insured-versus-insured exclusion."
13 As a result, if the Current Directors were to sue themselves or certain of the officers of
14 Medbox, there would be no directors' and officers' insurance protection. Accordingly, the
15 Current Directors cannot be expected to bring such a suit. On the other hand, if the suit is
16 brought derivatively, as this action is brought, such insurance coverage, if such an insurance
17 policy exists, will provide a basis for the Company to effectuate a recovery. Thus, demand
18 on the Current Directors is futile and, therefore, excused.
19

20 157. If there is no directors' and officers' liability insurance, then the Current
21 Directors will not cause Medbox to sue the Individual Defendants named herein, since, if
22 they did, they would face a large uninsured individual liability. Accordingly, demand is
23 futile in that event, as well.
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PRAYER FOR RELIEF

(d) Directing Medbox and the Individual Defendants to take all necessary actions to reform and improve its corporate governance and internal procedures to comply with applicable laws and to protect Medbox and its shareholders from a repeat of the

1 damaging events described herein, including, but not limited to, putting forward for
2 shareholder vote the following resolutions for amendments to the Company's Bylaws or
3 Articles of Incorporation and the following actions as may be necessary to ensure proper
4 corporate governance policies:
5

6 1. a proposal to strengthen the Board's supervision of operations and
7 develop and implement procedures for greater shareholder input into the
8 policies and guidelines of the Board;
9

10 2. a provision to permit the shareholders of Medbox to nominate at least
11 three candidates for election to the Board; and

12 3. a proposal to ensure the establishment of effective oversight of
13 compliance with applicable laws, rules, and regulations.
14

15 (e) Awarding Medbox restitution from Individual Defendants, and each of
16 them;

17 (f) Awarding Plaintiff the costs and disbursements of this action, including
18 reasonable attorneys' and experts' fees, costs, and expenses; and
19

20 (g) Granting such other and further relief as the Court may deem just and
21 proper.
22

JURY TRIAL DEMANDED

23 Plaintiff hereby demands a trial by jury.
24

25 Dated: May 20, 2015

Respectfully submitted,

LEVERTY & ASSOCIATES LAW CHTD.

26
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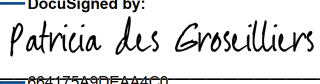
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Counsel for Plaintiff

VERIFICATION

I, Patricia des Groseilliers, am the plaintiff in the within action and am a citizen of Pennsylvania. I have read the foregoing complaint and know the contents thereof. The allegations of the complaint are true of my personal knowledge, except as to the matters therein stated to be alleged on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct. Executed this 20th day of May 2015.

DocuSigned by:

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Patricia des Groseilliers